

HIGH SCHOOL CORE AREA

Economics

Standard ECON-7: The student will demonstrate an understanding of the national economy and economic policies in the United States.

ECON-7.2 Explain the role of the money supply in a free-market economy, including various forms of the money supply in the United States and the effect of the banking system on the money supply.

Taxonomy Level: B 2 Understand /Conceptual Knowledge

Previous/future knowledge:

In first grade (1-6.2) students explained methods for obtaining goods and services, including buying with money and bartering. In second grade (2-5.4) students identified the relationships between trade and resources both within and among communities, including natural, human, and capital resources. In fifth grade (5-4.2, 5-4.3) students summarized the stock market crash of 1929 and the Great Depression, including economic weakness, unemployment, failed banks and businesses, and migration from rural areas and explain the immediate and lasting effect on American workers caused by innovations of the New Deal, including the Social Security Act, the Federal Deposit Insurance Corporation, and the Civilian Conservation Corps.

In middle school (7-5.3) students explained the worldwide depression that took place in the 1930s, including the economic crash of 1929 and political responses to the depression such as the New Deal in the United States, the rise of Nazism in Germany, and the economic retrenchment in Britain.

Later, in U.S. History (USHC 7.4, USHC 7.5) students explained the causes and effects of the stock market crash of 1929 and the Great Depression and compare the first and second New Deals as responses to the economic bust of the Great Depression.

Future Knowledge

While no future knowledge is required, students must have a basic understanding of the role of the money supply and the Federal Reserve System. Students must have a basic foundation of knowledge focusing on interest rates and interest rate changes, as this information will influence their ability to buy homes, cars, start a business, and, among others, the return they receive on investments. Thus, this knowledge allows individuals to be well-informed consumers, business owners, workers, and voters.

It is essential for students to know

Students should understand that the FED is a quasi-governmental organization. It is a “banker’s bank” in that FED branches are owned by member banks but it is regulated, and not owned, by the U.S. government. Students should understand the basic structure of the Federal Reserve System; emphasizing the number of branches, their locations, and branch location economic focus.

It is essential that students be able to identify the main tools of monetary policy used by the FED to regulate the money supply in the US. They should further understand the difference between expansionary and contractionary monetary policy. Students should understand the tools used and the outcomes desired when expansionary or contractionary monetary policies are used.

Students should also understand the difference between required reserves and actual reserves and how this impacts the ability of banks to create money through borrowing and lending. Students should be able to explain how a fractional reserve banking system allows the creation of money through borrowing and how changes in the reserve requirement impact the money supply. As well, students should be able to define the money multiplier and understand the importance of this concept for expansion of the money supply.

It is not essential for students to know

Students do not need to know specifics of expansionary and contractionary policies over time. Students do not need to specifically differentiate between various monetary designations such as M1, M2, and M3 et al. As well, students do not need to know the names of the FED Board of Governors, even though familiarity with the FED Chairman would be helpful. Students do not need to calculate a money multiplier but an understanding of this conceptually is important.

Assessment guidelines:

Appropriate assessment requires students to ***explain*** the role of the money supply in a free-market economy; therefore, the primary focus of assessment should be for students to ***compare*** and ***contrast*** expansionary and contractionary monetary policy, with particular focus on ***understanding*** monetary policy tools and outcomes. However, appropriate assessment should also focus on student ability to ***generalize*** the relationship between the money supply and the banking system, with specific emphasis on ***explanation*** of a fractional reserve banking systems ability to create “new” money.